

CONFORMED COPY

CREDIT NUMBER 3882 -IN

Development Credit Agreement

(Elementary Education Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 3, 2004

CREDIT NUMBER 3882 -IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 3, 2004, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower is carrying out a comprehensive policy and budgetary framework (currently financed under its Tenth Plan 2002 – 2007) for universalizing access to and provision of elementary education under its National Program for Universal Elementary Education (Sarva Shiksha Abhiyan) (the Program);

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) certain activities under the Project will be carried out by the States and the Union Territories of the Borrower (the Project States) through respective State Implementation Societies (SISs) with the Borrower's assistance, and as part of such assistance, the Borrower will make available for the benefit of each of the Project States part of the proceeds of the Credit as provided in this Agreement;

(D) by agreements to be entered into between the United Kingdom Department for International Development (DFID) and the Borrower (the DFID Grant Agreement) and the European Commission (EC) and the Borrower (the EC Financing Agreement), DFID and EC respectively intend to provide grants to the Borrower in a principal amount of £190,000,000 (one hundred and ninety million pounds sterling) (the DFID Grant) and E160,000,000 (one hundred and sixty million euros) (the EC Grant) to assist in financing, through a common pool, activities of the Program on the terms and conditions to be set forth in the DFID Grant Agreement and EC Financing Agreement respectively;

(E) DFID, the EC, the Association (collectively referred to as the Development Partners) and the Borrower intend to enter into a Memorandum of Understanding (the MOU) providing for *inter-alia*, matters of technical, operational and financial co-operation amongst the Development Partners and the Borrower on the terms and conditions set forth in the said Memorandum of Understanding; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Development Credit Agreement (hereinafter referred to as "this Agreement");

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Annual Procurement Plan” means the Plan referred to in paragraph 7 of Schedule 4 to this Agreement;

(b) “Annual Work Plans and Budgets” or “AWP&Bs” means the Annual Work Plans and Budgets for the Program for a Fiscal Year prepared by Districts;

(c) “Consolidated Report on Audits” means the report covering the Audits referred to in Section 4.01 of this Agreement and the Procurement Audits referred to in paragraph 8.01(b) of Schedule 4 to this Agreement;

(d) “DEEL” means the Department of Elementary Education and Literacy within MHRD (as hereinafter defined) which is responsible for, *inter-alia*, technical and financial oversight of the Program.

(e) “District” means an administrative district within a Project State;

(f) “Elementary Education Bureau” or “EEB” means the unit within DEEL which is responsible for coordination and implementation of Program activities;

(g) “Environment Assessment Report” means the Environment Assessment Report dated December 30, 2003 of the Borrower, which, *inter-alia*, identifies the main environmental and public health impacts of the Project and actions to be taken, including good practice, management and mitigation measures to reduce the risks and impacts;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “FY” or “Fiscal Year” means the fiscal year of the Borrower, which commences on April 1 of a calendar year and ends on March 31 of the following calendar year;

(j) “JRM” means Joint Review Mission to be carried out pursuant to paragraph 10 of Schedule 4 to this Agreement;

(k) “Letter of Undertaking” or “LOU” means the letter of commitment by a Project State to the Borrower confirming its financial contribution to the Program in accordance with the SSA Framework for Implementation, and includes the letter of sanction issued by the Borrower to the SIS of such Project State from time to time for implementing the Program as confirmed by a bond furnished by such SIS;

(l) “Manual on Financial Management and Procurement” means the Manual dated December 17, 2003 prepared by the Borrower and governing the financial management and procurement of the Program;

(m) “MHRD” means the Borrower’s Ministry of Human Resource Development;

(n) “Mid-term Review” means the Mid-term Review to be carried out pursuant to paragraph 11 of Schedule 4 to this Agreement;

(o) “National Component” means the component under the Program to be carried out at the national level by the Borrower in each Fiscal Year;

(p) “Project Approval Board or “PAB” means the independent Board convened by MHRD to, *inter-alia*, approve AWP&Bs, State Components (as hereinafter defined) and National Component under the Program;

(q) “Project Executing Agencies” means any agency of the Borrower responsible for implementation and execution of the Program and includes MHRD, DEEL, the Project States and SISs;

(r) “Report-based Disbursements” means the withdrawal of funds from the Credit Account referred to in Part B.2 of Schedule 1 to this Agreement;

(s) “Sarva Shiksha Abhiyan Framework for Implementation” or "SSA Framework for Implementation" means the framework issued in May, 2001 by the Borrower for implementation of the Program and which contains, *inter alia*, the basis of SSA planning and financing norms;

(t) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(u) “State Component” means the component under the Program to be carried out by a Project State including its SIS in each Fiscal Year other than the components included in the Districts AWP&Bs;

(v) "SIS" means a State Implementation Society in each Project State incorporated under the Borrower's Societies Registration Act 1860 (21 of 1860);

(w) "Tribal Development Plan" means the Tribal Development Plan of the Borrower dated December 2003, which, *inter-alia*, delineates the strategy for increased participation of tribal children in the Program.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to Three Hundred Thirty Four Million Nine Hundred Thousand Special Drawing Rights (SDR 334,900,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Program and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2014 and ending April 15, 2039. Each installment to and including the installment payable on April 15, 2024 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through the Project Executing Agencies, with due diligence and efficiency and in conformity with appropriate administrative, financial, elementary education and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause each Project State and its respective SIS to carry out their respective activities under the Project in accordance with the provisions of this Agreement and the terms and conditions set out in their respective Letters of Undertaking.

(d) Without limitation or restriction upon any of its obligations under this Agreement, the Borrower shall take all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Project State and its respective SIS to perform all their respective obligations set forth in this Agreement and in the respective Letters of Undertaking of the Project State and its respective SIS. The Borrower shall not take or permit to be taken any action which would prevent or interfere with such performance.

(e) The Borrower shall establish and implement arrangements, satisfactory to the Association, to make available for the benefit of each Project State and its respective SIS a portion of the proceeds of the Credit to the SISs for the Program activities in the Project States.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a report on the implementation of the Project in context of the continuation of the Program; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said report.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by each Project State and its respective SIS pursuant to the terms of their respective Letters of Undertaking.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, and shall cause Project States and SISs to, maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound accounting practices, the operations, resources, expenditures and audits related to the Program, of the departments or agencies of the Borrower and each Project State and the SISs responsible for carrying out the Project or any part thereof.

(b) The Borrower shall, and shall cause each Project State and the SISs to:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

- (ii) upon request, furnish to the Association, as soon as available, but in any case not later than nine months after the end of the Fiscal Year to which the request relates, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.
- (c) The Borrower shall:
 - (i) furnish to the Association no later than nine months after the end of each Fiscal Year a Consolidated Report on Audits containing an opinion on the statements, records and accounts and the report of the audit referred to in paragraph (b)(ii) of this Section, and the report of the procurement audit referred to in paragraph 8.01(b) of Schedule 4 to this Agreement, of such scope and in such detail as the Association shall have reasonably requested; and
 - (ii) furnish to the Association such other information concerning such Consolidated Report on Audits as the Association may from time to time reasonably request.
- (d) For all expenditures with respect to which withdrawals from the Credit Account were Report-based Disbursements, the Borrower shall:
 - (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;
 - (ii) enable the Association's representatives to examine such records; and
 - (iii) ensure that such records are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 4.01 above, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds; and
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation.

(b) The first FMR shall be furnished to the Association not later than December 31, 2004, and shall cover the period from April 1, 2003, through September 30, 2004; thereafter, each FMR shall be furnished to the Association not later than ninety (90) days after each previous six months, and shall cover such six-month period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;
- (b) that the SSA Framework for Implementation shall have been amended, waived or abrogated so as to adversely affect the implementation of the Project or the achievement of the objectives of the Project;
- (c) that the Manual on Financial Management and Procurement shall have been amended, waived or abrogated so as to adversely affect the achievement of the objectives of efficiency, economy and transparency of procurement methods and procedures;
- (d) any of the provisions of any Letter of Undertakings, relevant for this Agreement, shall have been amended, waived or abrogated so as to adversely affect the implementation of the Project or the achievement of the objectives of the Project; and

(e) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project State or SIS will be able to perform its obligations under its Letter of Undertaking;

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraphs (b), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance or successor thereto of the Borrower is each designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
New Delhi 110 001
India

Cable address:

Telex:

Facsimile:

ECOFAIRS
New Delhi

953-31-66175
FINE IN

91-11-23094075

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INDIA

By /s/ Ranjit Bannerji
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael F. Carter
Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Expenditures to be Financed</u>
(1) Goods, works and services under the Program for Fiscal Year 2003-2004 to Fiscal Year 2006-2007	334,900,000	32 % of Eligible Expenditures in each Fiscal Year or any other percentage that the Association may establish from time to time.
TOTAL	<u>334,900,000</u>	

2. For the purposes of this Schedule 1, the following terms have the following meanings:

(a) the term "Eligible Expenditures" means the aggregate of expenditures under Category (1) incurred by the Borrower and in Eligible Project States (as hereinafter defined) for the Program in accordance with the provisions of this Agreement in excess of a threshold level of expenditure in a Fiscal Year (the "Threshold Level of Expenditure") established by the Association and determined in the manner set out in paragraphs 5 and 6 below; and

(b) the term "Eligible Project State" means a State or Union Territory of the Borrower that has entered into a Letter of Undertaking and such agreement has not been suspended or terminated.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement except that withdrawals in an amount not exceeding the equivalent of SDR 66,980,000 may be made on account of payments made for expenditures before that date and incurred after March 31, 2003; and (b) payments made for expenditures for works, goods and services supplied under a contract which any national or international

institution or agency or the Association shall have financed or agreed to finance under any other agreement.

4. The Borrower may request withdrawals from the Credit account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements).

5. Except as the Association may otherwise agree, the Threshold Level of Expenditure for fiscal year 2003-2004 shall be Rupees 1500 crores. The Threshold Level of Expenditure for fiscal year 2004-2005 to fiscal year 2006-2007 shall be established by the Association in consultation with the Borrower and communicated to the Borrower.

6. Notwithstanding the provisions of the foregoing paragraphs, and except as the Association may otherwise agree, withdrawals in respect of Eligible Expenditures shall be made on an annual basis in accordance with the following provisions:

(a) with respect to Eligible Expenditures for fiscal year 2003-2004, the Borrower may request withdrawals from the Credit Account to be made on the basis of the Consolidated Report on Audits for such Fiscal Year submitted by the Borrower pursuant to Section 4.01(c) of this Agreement and any other reports or information as the Association shall specify by notice to the Borrower. Except as the Association may otherwise agree, such request shall be made no later than January 31, 2005;

(b) with respect to Eligible Expenditures for fiscal year 2004-2005 to fiscal year 2006-2007, the Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report covering the relevant Fiscal Year and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursement). Except as the Association may otherwise agree, such request in respect of a Fiscal Year shall be made no later than July 31 of the Following Fiscal Year.

(c) no withdrawals shall be made from the proceeds of the Credit for a Fiscal Year unless the Consolidated Report on Audits for the previous Fiscal Year has been submitted by the Borrower pursuant to Section 4.01(c) of this Agreement; and

(d) any amount disbursed by the Association to the Borrower in accordance with the above provisions shall be adjusted for actual levels of Eligible Expenditures confirmed by the Consolidated Report on Audits to be submitted by the Borrower pursuant to Section 4.01(c) of this Agreement or by other reports or information submitted by the Borrower pursuant to the Association's request, such adjustment to be made from the next disbursement, provided, however, that the Association may at any time request refunds of amounts not confirmed by such Consolidated Report on Audits,

other reports or information, and upon such request, the Borrower shall immediately refund such amount. Any such refunds made to the Association shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

B. Special Account

1. The Borrower may open and maintain a special deposit account, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made in accordance with the provisions of the Annex to this Schedule1 (Report-based Disbursements).

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) or (c) of the Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may

be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at anytime that any amount of the Authorized Advance (as defined in the Annex to Schedule 1) outstanding in the Special Account will not be required to cover payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

**Annex
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under Category 1 of Schedule 1 to this Agreement.
2. For the purposes of this Annex, the term "Authorized Advance" means an amount equivalent to \$75,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 of this Annex.
3. Withdrawals of the Authorized Advance and subsequent withdrawals to the Special Account shall be made as follows:
 - (a) for withdrawals of the Authorized Advance, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Advance. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.
 - (b) Upon receipt of each application for withdrawal of an amount of the Credit other than for the Authorized Advance, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.6 (a) and (b) of Schedule 1 applicable to such withdrawal application and any adjustments to be carried out pursuant to Part A.6(d) of Schedule 1, in order to finance Eligible Expenditures during the Fiscal Year prior to the date of such reports.
4. The amount of the Authorized Advance shall be deducted from payments for Eligible Expenditures for Fiscal Year 2006-2007 or from such other Fiscal Year as the Association shall determine. If the amount of payment for Eligible Expenditures for such Fiscal Year shall be less than the amount of the Authorized Advance, the Borrower shall, promptly upon notice from the Association refund the difference to the Association for Credit to the Credit Account for cancellation in accordance with the provision of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's ongoing Program for Universal Elementary Education (Sarva Shiksha Abhiyan) that aims at achieving universal enrollment in and completion of elementary education of satisfactory quality by 2010, through (a) increasing enrollment and reducing the number of out-of-school children; (b) narrowing existing gender and social gaps; and (c) enhancing the quality of education of all the elementary school students.

The Project consists of the following activities subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

1. Construction of primary and upper primary schools and classrooms, including other school facilities;
2. Provision of school/alternative schooling facilities;
3. Upgrading of Education Guarantee Schemes to regular schools, or setting up of a new primary school as per state norm;
4. Hiring of teachers and paying their salaries;
5. Supporting innovative activities for girls education, early childhood care and education, interventions for children belonging into SC/ST community, computer education especially for upper primary level;
6. Supporting interventions for out of school children, preparation activities for micro planning, household surveys, studies, community mobilization, school-based activities, office equipment, training and orientation at all levels;
7. Provision of free textbooks (for girls and students of SC and ST backgrounds);
8. Maintenance and repair of school buildings;
9. Provision of teaching, learning materials and equipment for primary and upper primary education;
10. Provision of school grant (for replacement of non-functional school equipment);
11. Provision of teacher grant (for purchase of teaching and learning materials);
12. Provision of teacher training;

13. Provision of training of community leaders;
14. Constructing and supporting State Institute of Educational Management and Training;
15. Constructing and supporting Block Resource Centers, Cluster Resource Centers;
16. Provision of support to children with disability;
17. Provision for the education of girls at the primary and upper primary levels;
18. Undertaking of research, evaluation, supervision and monitoring;
19. Planning, Operation and Management of the Program; and
20. Carrying out activities at the national and State level including training, capacity building, technical support, monitoring and evaluation, financial management, dissemination and media campaigns.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement

Section I. Procurement of Goods, Works and Services

Part A : General

Except as the Association shall otherwise agree, goods, works and services to be financed under the Program shall be governed by the provisions of this Section I.

Part B: Procurement Procedures

(a) Goods, excluding information technology equipment, estimated to cost the equivalent of more than US\$50,000 but not more than US\$300,000 per contract and works estimated to cost the equivalent of more than US\$20,000 but not more than US\$300,000 per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 109-111 of Chapter X of the Manual on Financial Management and Procurement (Open Tender Method).

(b) Information Technology Equipment estimated to cost the equivalent of more than US\$50,000 but not more than US\$2.0 million per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 109-111 of Chapter X of the Manual on Financial Management and Procurement (Open Tender Method).

(c) Goods, including Information Technology Equipment, estimated to cost equivalent of US\$50,000 or less per contract may be procured in accordance with the provisions of paragraph 112 of Chapter X of the Manual on Financial Management and Procurement (Limited Tender Method).

(d) All procurement of the following goods and services may be carried out in accordance with the provisions of paragraph 113 of Chapter X of the Manual on Financial Management and Procurement (Single Tender Method).

- (i) goods estimated to cost equivalent of less than US\$30,000 per contract and which are specifically certified as of proprietary nature or of which only a particular firm is the manufacturer;
- (ii) textbooks estimated to cost equivalent of US\$300,000 equivalent or less per contract;
- (iii) Books, teaching materials, school facility improvement, hiring of vehicles and operation and maintenance equipment estimated to cost equivalent of less than US\$30,000 per contract;

(e) All procurement of goods or group of goods estimated to cost equivalent of less than US\$1,000 per contract may be made without inviting tenders/quotation.

(f) Works estimated to cost equivalent of US\$20,000 or less per contract may be carried out in accordance with any of the following provisions:

- (i) Paragraph 112 of Chapter X of Manual on Financial Management and Procurement (Limited Tender Method); or
- (ii) Paragraph 113 of Chapter X of the Manual on Financial Management and Procurement (Single Tender Method i.e. direct contract without competition); or
- (iii) Paragraph 115 of Chapter X of the Manual on Financial Management and Procurement (Procurement through Communities).

Works procured in accordance with clause (iii) above may be procured under the unit/piece rate through qualified contractors or registered non-governmental organization, other beneficiary association or Village Panchayats.

(g) Goods, other than Information Technology Equipment, and works estimated to cost equivalent of more than US\$300,000 per contract and Information Technology Equipment estimated to cost equivalent of more than US\$2.0 million per contract shall be procured in accordance with such methods as may be established by the Association

Section II: Employment of Consultants

Part A: All Consulting Services to be financed out of the proceeds of this Credit shall be procured in accordance with paragraph 117 of Chapter X of the Manual on Financial Management and Procurement.

Section III: Misprocurement

Part A: The goods, works and services that have not been procured in accordance with this Schedule 3 shall be treated as misprocurement in accordance with paragraph 121 of Chapter X of the Manual on Financial Management and Procurement.

SCHEDULE 4

Implementation Program

Program Structure

1. The Borrower shall:

(a) cause MHRD, through EEB, to oversee and be responsible for the day-to-day implementation of the Program;

(b) shall maintain the PAB throughout the Project implementation period;

(c) ensure that SISs and other Project Executing Agencies remain operational throughout the Project implementation period;

(d) cause MHRD, through EEB to ensure that the PAB meets diligently, whenever necessary, to *inter alia*, approve and sanction AWP&Bs and the National Components and the State components, ensure adherence to the financial norms envisaged in the Program, maintain consistency with the overall objectives of the Program and the Project, ensure cost effectiveness of all proposed interventions at various levels and co-ordinate the activities of various Project Executing Agencies;

(e) cause MHRD through EEB, to ensure timely submission of AWP&Bs, State and National Components for appraisal and subsequent approval by PAB;

(f) cause MHRD, through EEB, to ensure SISs timely pass funds to various Project Executing Agencies including Districts, Block Resource Centers and Cluster Resource Centers;

(g) cause the audits of various Project Executing Agencies to be conducted in a timely manner in accordance with the terms of reference set out in the Manual on Financial Management and Procurement; and

(h) appoint and maintain a Director (finance) at the national level with responsibility for the entire Program.

Manuals and Plans

2.01. Throughout the duration of the Project the Borrower shall:

(a) maintain the SSA Framework for Implementation and the Manual on Financial Management and Procurement;

(b) promptly inform the Association of any amendment, waiver or abrogation of any provision of the SSA Framework for Implementation and the Manual on Financial Management and Procurement;

(c) refrain from taking any action which shall prevent or interfere with the implementation of the SSA Framework for Implementation and the Manual on Financial Management and Procurement.

2.02. Throughout the duration of the Project the Borrower shall, and shall cause the Project States and the SISs to:

(a) carry out the Project and the Program in accordance with the SSA Framework for Implementation;

(b) implement the Manual on Financial Management and Procurement in accordance with the objectives, policies, procedures, time schedules and other provision set forth therein; and

(c) refrain from taking any action which shall prevent or interfere with the implementation of the SSA Framework for Implementation and the Manual on Financial Management and Procurement.

3. To ensure that the tribal population and other socially deprived groups in India benefit fully from the activities under the Project, the Borrower shall, and shall cause the Project Executing Agencies to implement, in a manner satisfactory to the Association, the Tribal Development Plan and the interventions targeted towards other socially deprived groups set forth in the SSA Framework for Implementation.

4. The Borrower shall carry out and shall cause the Project Executing Agencies to carry out the Program in accordance with the agreed Environment Assessment Report and ensure that:

(a) the relevant manuals and guidelines are at all times consistently and satisfactorily applied;

(b) the appraisal of AWP&Bs and National and State Components and independent third party evaluations of civil works examine the implementation of environmental management measures, and outputs of such evaluations are used to improve the implementation of the Program in the subsequent years.

Financial Commitment

5. The Borrower shall:

a) throughout the Project implementation period, maintain financial commitment in real terms to the level of Fiscal Year 2002-03 in Elementary Education; and

b) cause the Project States to maintain their financial commitment in real terms to the level of Fiscal Year 1999-2000 in Elementary Education. The contribution by the Project States to the Program shall be over and above this commitment.

Land

6. The Borrower shall and shall ensure that the Project Executing Agencies shall:

(a) ensure that any private land needed for any work under the Program shall be provided by the owner of such land in a voluntary manner, through a registered deed or a memorandum of understanding or through any procedure prescribed by the relevant laws;

(b) not commence any work in any locations for which clear title is not already available; and

(c) to the extent practicable, ensure that any land to be made available by the owner shall be free from any encumbrances and encroachment, and that no involuntary resettlement arises from any use of such land under of the Program.

Procurement

7. (a) The Borrower shall provide to the Association the Annual Procurement Plan at the time of the review referred to in paragraph 10(c) of this Schedule 4.

(b) Such Annual Procurement Plan shall *inter-alia*, be a consolidation of procurement activities set out in the AWP&Bs, the State and National Components.

8.01. The Borrower shall carry out the following Procurement Audits:

(a) Internal Procurement Audit in accordance with the provisions of paragraph 99 of Chapter VIII of the Manual on Financial Management and Procurement.

(b) External Procurement Audit in accordance with the provisions of Chapter IX of the Manual on Financial Management and Procurement.

(c) Subject to paragraph 8.02 hereunder, post review of contracts in accordance with the provisions of paragraph 120 of Chapter X of the Manual on Financial Management and Procurement.

8.02. Notwithstanding anything contained in Clause (c) of paragraph 8.01 above, the Association reserves the option to carry out post review of any contract awarded in accordance with Schedule 3. Such post review, however, shall be carried out in consultation with the Borrower.

9. The Borrower shall:

(a) shall make available to the Association at the time of the review referred to in paragraph 10(c) of this Schedule 4 the Audit Reports for the audits and post review referred to in paragraph 8.01(b)&(c) herein above respectively;

(b) review the Post Review Reports referred to in clause 8.01(c) and modify, if required, the Terms of Reference of the Auditors for such post review after a period of one year. Such modification to the terms of reference shall be promptly furnished to the Association; and

(c) Refer all cases of non-compliance to the relevant authorities of the Borrower and the Project States for taking necessary remedial action.

Performance Monitoring Indicators, Reviews and Mid-Term Review

10. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Program and the achievement of the objectives thereof;

(b) furnish to the Association semi-annually at the time of reviews referred to in Clause (c) hereinafter reports, of such scope and in such detail as the Association shall reasonably request, on progress made in the carrying out of the Project during the six month period immediately preceding said reports; and

(c) review with the Association in the months of December/January and June/July of each year of Project implementation progress made in the carrying out of the Project and the attainment of the objectives thereof, such reviews to be based on the reports referred to in sub-paragraph (b) above (JRM); and thereafter take, or cause to be taken, all such action as shall have been agreed upon by the Borrower and the Association during such reviews as necessary for the efficient execution of the Project and the achievement of the objectives thereof.

11. The JRM in January 2006 shall constitute the Mid-term Review of the progress made in carrying out the Project. Such Mid-term review shall be carried out in accordance with terms of reference acceptable to the Borrower and the Association.